

Message Text

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21-12

ACTION EA-14

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NSAE-00 RSC-01 SIL-01 SP-03 AID-20 NSC-07 CIEP-03

TRSE-00 SS-20 STR-08 OMB-01 CEA-02 DODE-00 PA-04

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R 130400Z AUG 74

FM AMCONSUL HONG KONG

TO AMEMBASSY SINGAPORE

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

SECSTATE WASHDC 1850

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E.O. 11652: N/A

TAGS: ECON ELAB HK

SUBJ: HONG KONG FEEDBACK ON AMERICAN ELECTRONICS FIRM LAY

OFFS AT SINGAPORE PLANT

REF: SINGAPORE 3186

SUMMARY

ON BASIS OF TALKS WITH SEVERAL U.S. MANUFACTURERS HERE WE HAVE THE IMPRESSION THAT AMERICAN MANUFACTURING INVESTMENT IN HONG KONG IS RESPONDING TO NUMEROUS AND DIVERSE ECONOMIC FACTORS, AND THAT THERE ARE BOTH CONTRACTIONS AND EXPANSIONS IN ELECTRONICS AND OTHER SECTORS. END SUMMARY.

1. DUE TO SLOWER GROWTH SO FAR THIS YEAR IN THE TEXTILE AND TOY INDUSTRIES, HONG KONG'S LABOR MARKET IN THESE SECTORS HAS SOFTENED SOMEWHAT AND WAGES HAVE REMAINED STABLE OR, IN SOME LIMITED OFFICIAL USE

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CASES, DECLINED SINCE THE BEGINNING OF THE YEAR, ACCORDING

TO INDUSTRY SOURCES. THIS COULD BE AN ATTRACTIVE INVESTMENT SITUATION FOR FOREIGN FIRMS WHOSE HOST GOVERNMENTS HAVE MANDATED WAGE OR FRINGS BENEFIT INCREASES. HONG KONG'S GOVERNMENT TRADITIONALLY STAYS OUT OF WAGE NEGOTIATIONS BETWEEN PRIVATE COMPANIES AND WORKERS AND THE ONLY NEW WAGE WRINKLE PRESENTLY UNDER CONSIDERATION IS A MODERATE SEVERANCE PAY MEASURE. HONG KONG REMAINS A GOOD PLACE TO CAPTURE PROFITS BECAUSE OF ITS LOW TAX STRUCTURE, AN IMPORTANT CONSIDERATION TO MANY FIRMS.

2. ELECTRONICS: THERE HAVE BEEN AND CONTINUE TO BE REDUCTIONS IN STAFF AND OUTRIGHT CLOSURES IN HONG KONG IN THIS INDUSTRY. HEAD OF LECKHEED OPERATION HAS TOLD US ON PRIVATE BASIS THAT THEY HAVE BEEN REDUCING SIZE OF HONG KONG PLANT FOR PAST YEAR OR SO, GRADUALLY TRANSFERRING WORK AND MACHINERY TO TAIPEI TO TAKE ADVANTAGE OF LOW WAGES. AMPEX FERROTEC CLOSED A MAJOR PLANT HERE LATE LAST YEAR TO MOVE TO TAIWAN, RESULTING IN THE LAYOFF OF SEVERAL HUNDRED PEOPLE. GENERAL ELECTRIC SUBSIDIARY, ELECTRONIC INDUSTRY, HAS REDUCED ITS HONG KONG WORKFORCE ABOUT 25 PERCENT, ACCORDING TO AN INDUSTRY SOURCE, WHILE ALSO BUILDING UP IN TAIWAN. OAK ELECTRONICS IS DOWN 50PERCENT. THERE HAVE ALSO BEEN SOME U.S. - ORIGIN BLOWS TO THE INDUSTRY, SUCH AS THE ABANDONMENT BY R.C.A. OF ITS NON-TELEVISION CONSUMER ELECTRONICS OPERATION, WHICH REDUCED A LOCAL SYLVANIA PLANT'S WORKLOAD VERY SUBSTANTIALLY. BUT THE ABOVE WERE MORE OR LESS NATURAL OCCURRENCES IN THE LONG TERM DEVELOPMENT OF ELECTRONICS IN HONG KONG. THERE WERE, BY AND LARGE, LOW SKILLED, LABOR INTENSIVE OPERATIONS WHICH HONG KONG'S RELATIVELY HIGH WAGES WERE BOUND TO EVENTUALLY DRIVE AWAY. ON THE OTHER HAND, NATIONAL SEMICONDUCTOR'S LOCAL SUBSIDIARY, N.S. ELECTRONICS, HAS TOLD US THEY PLAN TO EXPAND THEIR HIGH SKILLED, HIGH TECHNOLOGY FINISHING AND TESTING WORK BECAUSE OF THE HIGH QUALITY OF THE LABOR FORCE WHICH MORE THAN OFFSETS ITS HIGHER COST. SIMILAR SENTIMENTS HAVE BEEN EXPRESSED BY NCR, MORSE ELECTROPHONICS AND CONTROL DATA CORPORATION.

3. TEXTILES: THE GARMENT SECTOR IS HAVING A RELATIVELY POOR YEAR, BUT, SURPRISINGLY, THE LARGEST AMERICAN-OWNED MANUFACTURER, LEVI STRAUSS, IS EXPANDING AND FOR MUCH THE SAME REASON AS NATIONAL SEMICONDUCTOR -- HIGH QUALITY, READILY LIMITED OFFICIAL USE

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TRAINABLE LABOR.

4. TOYS: THE HEAD OF THE LOCAL MANUFACTURING SUBSIDIARY OF QUAKER OATS' LOUIS MARX & CO. INC., TOLD US RECENTLY "THE HONG KONG TOY INDUSTRY IS WAITING WITH BATED BREATH TO SEE IF A BETTER SALES PICTURE WILL EMERGE. SALES ARE DOWN DRASTICALLY AND THE ONLY HOPE FOR A PROFITABLE YEAR FOR SOME FIRMS IS FULL CHRISTMAS ORDER BOOKS IN SEPTEMBER AND OCTOBER." IN SHARP CONTRAST WERE

STATEMENTS OF AN EXECUTIVE OF MATTEL'S SUBSIDIARY IN HONG KONG, HONG KONG INDUSTRIAL CO. LTD., WHO SAID THAT BECAUSE MATTEL "IS BRINGING NEW KINDS OF TOYS ON THE MARKET INSTEAD OF THE OLD CONVENTIONAL STUFF, HONG KONG INDUSTRIAL CO. IS HAVING A GREAT SALES PROFIT YEAR. NO LAYOFFS ARE FORESEEN."

5. IT IS DIFFICULT TO QUANTIFY THE SITUATION IN HONG KONG WHERE COMPREHENSIVE STATISTICS ARE LACKING AND ANYTHING SHORT OF FANTASTIC GROWTH TRIGGERS SHRILL CRIES OF DOOM. FOR WHAT IT IS WORTH, A HONG KONG GOVERNMENT LABOR DEPARTMENT SURVEY, PUBLISHED IN LATE JULY AND COMPARING THE FIRST FIVE MONTHS OF 1973 AND 1974, SAID THE AVERAGE MANUAL WORKER LOST ONLY ONE HOUR FROM HIS WORK WEEK AND THAT REGISTERED EMPLOYMENT HAS BEEN STEADY SINCE MARCH. THE STEEPEST DROP WAS IN PLASTICS: THE WORK WEEK WAS DOWN BY ONE HOUR AND 45 MINUTES AND JOBS BY 1,600. THE TEXTILE WORK WEEK WAS DOWN BY ONE HOUR AND FIVE MINUTES AND JOBS BY 700. THE ELECTRONIC WORK WEEK WAS DOWN BY HALF AN HOUR BUT THE NUMBER OF JOBS WAS UNCHANGED (THIS ARGUES THAT OTHER FIRMS HAVE BEEN TAKING UP THE SLACK REPORTED IN PARAGRAPH 2). WHAT THE SURVEY FAILS TO SHOW IS THE QUALITATIVE NATURE OF THE JOBS FILLED; THE UPGRADING PROCESS, WHICH HAS CHARACTERIZED PRODUCTION IN RECENT YEARS, IS UNDOUBTEDLY CONTINUING WITH MORE SKILLED JOBS AND CAPITAL-INTENSIVE METHODS.

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